CHAPTER - I
INTRODUCTION
# CHAPTER – I

## INTRODUCTION AND DESIGN

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INTRODUCTION AND DESIGN

1.1. INTRODUCTION

The textile industry occupies an important position, as it supplies one of the basic essential items of commodity cloth. Hence, it stands first position among other industries. In view of the important position held by the industry, it is essential to run efficiently to safeguard the interests of the consumers, the workers, the owners and the society in general. Hence, it is appropriate to deal with the working of textile mills in India and its contribution to the development of economy in this chapter.

1.2 SIGNIFICANCE OF TEXTILE MILLS

The cotton textile industry occupies first position among other industries. It contributed over 738 crores towards foreign exchange earnings in 1979-80. It accounts for about 21% of the country's industrial production. This shows how important the industry is.

It gives direct employment to about 20% of all industrial labour and accounts for nearly 10% of foreign exchange earnings.

It plays an important role towards economic prosperity of the country by supplying one of the essential commodities for the entire population.
1.3. TEXTILE MILLS IN INDIA

Let us see the position of Indian textile industry related to its spinning cost, its future scenario, government control and regulations, organization development and performances.

1.3.1. INDIAN TEXTILES INDUSTRY

INTRODUCTION

The Indian Textiles Industry is the second largest in the world and stands next to Chinese. Apart from catering to a large local population, it accounts for 38% of the country's export. The industry provides direct employment to around 1.85 crore people.

INDIA'S FUTURE

The Agreement on Textile and Clothing (ATC) came into force with the setting up of the World Trade Organisation (WTO) on January 1, 1995 establishing fresh rules for trade in textiles and clothing.

The ATC is a ten years time limited arrangement, which provides for the gradual integration of the textile and clothing sector into WTO mainstream and the elimination of the quantitative restraints that have regulated trade in the sector among the importing and exporting countries.

India has the advantage of producing good quality, long staple cotton. Further; it is also endowed with comparatively cheap manpower. In view of these reasons, India has the capacity to double its share of world textile trade from the present 2.5% to 5% and attain an export figure of USD 35 billion in the medium term.
If the Indian textile machinery-manufacturing sector has to grow, they should make massive investments in research and development.

An effective technology Upgradation with pragmatic strategies combined with assessment of domestic and international market would not only enable to Indian Textile Mills to retain their share in the domestic market but would also help them to compete effectively in the international market.

1.3.2. TECHNOLOGY UPGRADATION

The Technology UpGradation Fund Scheme (TUFS) introduced by the union Government since April 1999 for modernization of our mostly outdated cotton mill industry, has been giving good scope for modernisation of many of the textile mills in India.

1.3.3. GOVERNMENT CONTROL AND REGULATORY FRAME WORK

1. A detailed analysis of the cost of conversion at the spinning stage and also at the weaving stage in different countries conducted by the International Textile Manufacturers Federations (ITMF) come out with a report that spinning cost is more in India than many other countries due to high import duty on capital goods coupled with higher interest rates. It might be interesting to note that the excise exemption given in the last budget to small spinning mills provided a tonic to small spinners. Hence, it is the need of the hour to reduce the excise duty or increasing the excise incentives to reduce the spinning cost.
1.3.4. ORGANIZATION

The textile mill sector consists of a well-organized sector and a decentralized sector. The organized sector covers:

1. Pure spinning mills
2. Composite mills

The decentralized sector covers:

1. Hand looms
2. Power looms

The decentralized sector depends on the organized mill sector for its requirements of yarns. Besides this there are certain processing units which process the cloth manufactured by the decentralized sector.

The textile industry can be grouped under the following broad categories.

<table>
<thead>
<tr>
<th>Cotton Textiles</th>
<th>Jute Textiles</th>
<th>Mixed Fabrics</th>
<th>Woolen Textiles</th>
<th>Silk Textiles</th>
</tr>
</thead>
</table>

1.3.5. TECHNICAL ASPECTS OF THE INDUSTRY

The organized mill sector may be grouped into two categories. They are:

1. SPINNING MILLS
   They are manufacturers of yarns, which are either sold in Hanks (or) in cones.

2. COMPOSITE MILLS
   They are manufacturers of yarns, weaves it into cloth and processes the cloth before sale.
Some specialized processing houses are also engaged as a specialist in this field. The cotton textile industry produces varieties of products. Such as,

| 1. Yarns in Hanks, yarns on cones. |
| 2. Cloth Suiting, Shirting's, Sarees, Filter Cloth, Sheeting, Longcloth, Poplins, Bed sheets, Towels etc., |

The manufacturing process in a cotton textile industry consists of:

| 1. SPINNING | 2. WEAVING | 3. PROCESSING |

1.4 WORKING OF TEXTILE MILLS IN INDIA
1.4.1. GROWTH OF TEXTILE INDUSTRY

With the nationalization of a large number of sick mills, it is perhaps the only industry in India where there are three sectors.

| Public |
| Private and |
| Co-Operative |

The Indian textile industry present itself as an organization of complex system as it arises out of:

i) Size – No. of persons employed
ii) Age – No. of years of experience, since production
iii) Range of operations – Varieties
iv) Varied technical system and
v) Varied organization structure
When India became Independent, there were 10.3 million spindles. After facing two hits in early sixties and in 1974, various technological developments took place and became one of the giant to tackle the various problems. It can be evidenced, from the following data,

**TABLE NO.1.1.**
GROWTH AND EXPANSION OF COTTON TEXTILE INDUSTRY

<table>
<thead>
<tr>
<th>YEAR</th>
<th>SPINDLES (in millions)</th>
<th>LOOMS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948</td>
<td>10.07</td>
<td>1,93,000</td>
</tr>
<tr>
<td>1983</td>
<td>22.53</td>
<td>2,11,000</td>
</tr>
<tr>
<td>1994</td>
<td>28.00</td>
<td>1,06,000</td>
</tr>
</tbody>
</table>

*Source: Secondary data*

The general development/performance of the textile industry can be understood from the following data.

**TABLE 1.2**
GROWTH OF CLOTH PRODUCTION SINCE INDEPENDENCE

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cloth</td>
<td>Million Meters</td>
<td>4215</td>
<td>7602</td>
<td>23860</td>
</tr>
</tbody>
</table>

*Source: Secondary data*

**TABLE 1.3**
EXPORT PERFORMANCE OF COTTON YARN

<table>
<thead>
<tr>
<th>YEAR</th>
<th>EXPORT OF COTTON YARN FABRICS (Values in Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-61</td>
<td>64</td>
</tr>
<tr>
<td>1996-97</td>
<td>24,400</td>
</tr>
</tbody>
</table>

*Source: Secondary data*
Similarly, the increase in production of yarn and fabric by the textile industry can be evidenced from the following Table.

### TABLE 1.4
PRODUCTION OF COTTON YARN AND FABRICS

<table>
<thead>
<tr>
<th>YEAR</th>
<th>YARN (Values in Millions)</th>
<th>FABRIC (Million Meters)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988-89</td>
<td>1600</td>
<td>20,600</td>
</tr>
<tr>
<td>.1996-97</td>
<td>2790</td>
<td>34,810</td>
</tr>
</tbody>
</table>

*Source: Secondary data*

Similarly the tremendous increase in production of cotton and man-made fabrics by mill sector and Decentralized sector can be understood from the following data.

### TABLE 1.5
PRODUCTION OF COTTON AND MAN MADE FABRICS (in Million Sq. Metres)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>MILL-SECTOR</th>
<th>DECENTRALISED SECTOR</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979 – 80</td>
<td>4080</td>
<td>6290</td>
<td>10370</td>
</tr>
<tr>
<td>1996 – 97</td>
<td>1960</td>
<td>32850</td>
<td>34810</td>
</tr>
</tbody>
</table>

*Source: Secondary data*

1.4.2. PROBLEMS OF COTTON TEXTILE INDUSTRY

Though the above figures show that there is a considerable increase in cotton textiles, there were so many sick mills due to the Government's Textile Policy and growth of the Power loom sector. The result was that many textile mills became inefficient and uneconomic. One third of the mills
became sick and were closed down. The total number of mills closed at the end of March 1994 numbered 132. The following may be taken as the reasons for the sickness of the mill.

**a) Government Control and Heavy Excise Duties**

The cotton textile industry has suffered badly due to the confused policies of the Government.

In past the Government had sought control over price, distribution pattern of production etc, on yarn.

At one time, prices of cloth were fixed by the Government far below the cost. Under the yarn distribution scheme of 1972, the Government made it obligatory on all mills to supply 50 per cent of the production of yarn to the decentralized sector at reduced rates.

The imposition of excise duty was also high on yarns. Therefore, Cotton mill industry had suffered very badly and many mills were forced to shut down.

**b) Problem of Raw Materials**

The industry faces the problem of building up a regular supply of its raw material (cotton) in adequate quantities. Uncertainties in the raw material market and, in particular, fluctuations in the prices of raw cotton are two major causes of sickness and consequently closure in the textile industry.

**c) Problem of Power**

The textile industry in our country had suffered badly for want of adequate and unfailing supply of power. Frequent power cuts and load
shedding had affected the industry badly. The inadequacy of coal supplies had also affected the progress of the industry, particularly in western and southern India. Load shedding has been one of the serious problems of the industry.

d) Obsolete Machinery and Need For Modernization

The mill sector has been working with obsolete machinery. According to one estimate, over 80 percent of the machinery in the cotton textile mills are old and should be scrapped. The problem of replacement of obsolete machinery and modernization have become really acute, since the Indian mill industry has to compete with countries like Taiwan, Hong Kong, South Korea, etc., all of which are using the latest sophisticated machinery. The Government has set up in 1986 the Textile Modernisation Fund of Rs.750 crores and has asked the IDBI to operate it. This has given some encouragement to the textile Industry.

e) High Cost And Competition In Foreign Markets

The Indian cotton textile industry has been facing increasing competition in world markets. This is largely due to low productivity and high cost and consequently high prices of Indian cotton textiles. The foreign exchange inflow was also very low.

f) Competition From The Decentralized Sector

An important factor for the growing sickness of the mill sector is the growth of the decentralized sector. Being a SMALL-SCALE SECTOR, the Government allowed excise concessions and other privileges, such as exemption from the production of controlled cloth.
The industry is facing both short-term and long-term problems. The short-term problems of the industry are high prices and shortage of raw materials, liquidity problems due to poor sales and large accumulation of stocks as a result of poor demand.

The long-term problems of the industry are the slow pace of modernisation of age old plants and machinery, outdated technology resulting in low productivity, high cost of production, low profitability and increasing sickness.

1.4.3. GOVERNMENT TAKEOVER OF SICK MILLS

On account of the various reasons we have mentioned above, many cotton mills became sick and closed down. At one time, nearly one-third of the mills were closed down, throwing thousands of workers out of employment. The government set up the National Textile Corporation (NTC) to run these sick mills. The Government has been regularly pumping in money to rehabilitate and modernize these mills. However, these mills continue to incur losses, which are borne by the general tax-prayer. There is a strong view that it would have been much better and much cheaper, if the mills were closed down and the workers compensated generously. The two major problems faced by NTC are obsolete machinery and excess labour.

The following table depicts the number of Sick Units and Weak Units as on 31st March 1995.
TABLE 1.6.
CLASSIFICATION OF SICK UNITS AND WEAK UNITS AS ON 31ST MARCH 1995

<table>
<thead>
<tr>
<th>Particulars</th>
<th>SICK UNITS</th>
<th></th>
<th>WEAK UNITS</th>
<th></th>
<th>TOTAL OUTSTANDING BANK CREDIT (Rs.in Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NUMBER</td>
<td>OUT STANDING BANK CREDIT (Rs.in Crores)</td>
<td>NUMBER</td>
<td>OUT STANDING BANK CREDIT (Rs.in Crores)</td>
<td></td>
</tr>
<tr>
<td>Textile Industry</td>
<td>381</td>
<td>1673</td>
<td>60</td>
<td>105</td>
<td>1778</td>
</tr>
</tbody>
</table>

Source: Secondary data

1.4.4. TAKEOVER AND REVIVAL OF SICK UNITS

In the case of potentially viable units, a rehabilitation package comprising of provision of balancing equipment, replacement of existing machinery, change of product mix, better marketing strategy, rationalization of labour etc., will have to be worked out. In cases, where sickness is the consequence of inept management, existing management may have to be changed.

1.4.5. MODERNISATION OF VARIOUS PROCESSES

Modernisation in the spinning, weaving and processing sectors shall be undertaken on the basis of carefully identified needs of each unit as to installation of balancing equipment, renovation of existing machinery, replacement and technology upgradation. For the purpose of modernization, adequate funds would continue to be provided in adequate measures under the soft loan scheme of the IDBI. In order to enable the industry to generate internal resources, a Textile Modernization Fund has been created. A liberal import of such textile machinery, which is not manufactured indigenously, is permitted at or near the international prices.
1.4.6. GOVERNMENT POLICIES

The Government has adopted several policy measures to improve the health of the textile industry:

(a) The Textile Modernisation Fund set up in 1986 with a corpus of Rs.750 crores has received an overwhelming response from the mills.

(b) The Government has evolved a turnaround strategy for the sick mills of NTC which includes providing working capital finance to tide over the liquidity problems, capacity modernization and shedding of surplus labour through a voluntary retirement scheme. The Government has established recently the National Renewal Fund (NRF) to handle the voluntary retirement scheme.

(c) Other programmes relate to the technological upgradation of ginning and pressing operations, upgradation of capacities in the decentralized power loom sector, etc.,

(d) Under the new liberalized industry policy, the textile industry was among the many industries delicensed in August 1991. Under the new policy, no prior approval of the Government is required to set up textile units or to expand capacity including power looms, except location clearance.

(e) The Government has made changes in export/import policy from April 1993 to give a fillip to the export sector and to provide more
facilities for improving export capability by allowing of capital goods at concessional rates.

(f) The Government announced a new Export Entitlement Distribution Policy (1994-96), generally known as the Quota Policy for the export of various textile items to certain countries.

1.5. STATEMENT OF THE PROBLEM

Higher operating profit can be arrived by better utilization of raw materials, reduction of wastes and increase in yield. Besides this employment of adequate capital and better utilization of other factors are also responsible to have an improvement in OPERATING PROFIT.

Due to mismanagement of funds and other factors most of the mills have turned as sick mills. Therefore the measurement of healthiness of a mill and its evaluation is very much needed in these days of global competition to win the game. The study of performance evaluation would yield the following fruits:

1) The raw material consumption and process wastages show the yield pattern, which will be useful for tuning the operating profit.

2) The significance of relationship between various factors such as sales, production, raw material consumption, wastages, capital employed and assets used in the business over the operating profit are studied.

3) The trend of various factors and their forecasted figures gives an idea to what would happen in future.
4) The study concentrates on improving the operating profit by considering the various influencing factors.

1.6. REVIEW OF LITERATURE

This Chapter attempts to make a brief review of previous literatures dealing with the present study. The related reviews were collected from textbooks, periodicals, journals, magazines, newspapers and project reports.

The review of literature aims at presenting and discussing the various methods of measuring the financial healthiness of any concerns. The following literatures are some of the presentations made by different persons.

1. Productivity is the key to the prosperity. It is the quality that indicates how well labour, capital, materials and energy are utilized. "Production, productivity and cost effectiveness expressed that modern methods be followed to raise-productivity by managing the human resources effectively"1. An unpublished M.Phil dissertation titled “A STUDY OF PRODUCTIVITY IN SAMBANDAM SPINNING MILLS LTD, SALEM-By C.Dhanapal under the guidance of Dr.V.Chandra Sekaran- submitted to the University of Madras shows the productivity measure used in the textile field.

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2. Economic Value Added (EVA) analysis is makes one of the latest methods of measurement of financial performances. CENTURA BANKS INC., North Carolina was the first among the Bankers to adopt EVA as the basis for the performance measurement. More than 300 Companies adopted EVA as a CORPORATE PHILOSOPHY.\(^2\) An unpublished M.Phil dissertation titled "A STUDY OF EVA IN SAMBANDAM SPINNING MILLS LIMITED, SALEM BY C. Mahalakshmi under the guidance of C. Dhanapal, S.G.lecturer in commerce- submitted to the Periyar University shows the use of EVA analysis in the textile field.

3. A published book SITRA NORMS FOR SPINNING MILL shows the detailed norms for various production departments. Out of the researches conducted by this SOUTH INDIAN TEXTILE RESEARCH ASSOCIATION (SITRA) norms both for production and finance are indicated.

1.7. THE OBJECTIVES OF THE STUDY

The study has been carried out with the following objectives in view.

1. The main objective of the study is to gain a clear insight into the performance of the mill.

2. To highlight the working of Sambandam spinning Mills Ltd, Salem.

3. To find out the performance of the Sambandam Spinning Mills Ltd, Salem during the specified period of study.

4. To identify the problems and pitfalls if any in the organization.

5. To formulate suggestions for the improvement and the efficient working of the mill.

1.8. HYPOTHESES

The study is based upon the formulation of the following hypotheses. The validity of some of them has been tested with the available data through appropriate analysis. The following hypotheses are to be tested.

HYPOTHESIS 1:
Operating profit is not influenced by the Sales.

In this Operating profit has been taken as dependent variable and sales as the independent variable. Simple regression model is used to test the hypothesis. The test shows that the null Hypothesis is ACCEPTED.

HYPOTHESIS 2:
Sales is not influenced by the Production

In this Sales has been taken as the dependent variable and Production as independent variable. Simple regression model is used to test the hypothesis. The test shows that the null Hypothesis is REJECTED.

HYPOTHESIS 3:
Production is not influenced by Raw material

In this Production has been taken as the dependent variable and Raw material as independent variable. Simple regression model is used to test the hypothesis. The test shows that the null Hypothesis is REJECTED.
HYPOTHESIS 4
There is no association between Production and wastage
In this Wastage has been taken as the dependent variable and Production as independent variable. Simple regression model is used to test the hypothesis. The test shows that the null Hypothesis is ACCEPTED.

HYPOTHESIS 5
There is no association between sales and capital employed
In this Sales has been taken as the dependent variable and Capital employed as independent variable. Simple regression model is used to test the hypothesis. The test shows that the null Hypothesis is ACCEPTED.

HYPOTHESIS 6
There is no association between sales and fixed assets employed
In this Sales has been taken as the dependent variable and fixed assets employed as independent variable. Simple regression model is used to test the hypothesis. The test shows that the null Hypothesis is ACCEPTED.

HYPOTHESIS 7
There is no association between Production, Raw material consumption and wastage
In this Production has been taken as the dependent variable and raw material consumption and wastages are taken as independent variables. Multiple regression model is used to test the hypothesis. The test shows that the null Hypothesis is REJECTED. That is the study shows that there is significance relationship between the variables. Trend analysis has been made on operating profit and sales to find the trends as well as the forecasted profits and sales.
1.9. PLAN OF ANALYSIS

Performance of the Mill is based on various factors. In this study the performance of production, Sales, Profit, Material, Conservation of Energy and Fixed Assets, capitals employed have been taken for Analysis.

Firstly, the working and progress of the Mill have been analysed by using performance Indicators.

Secondly, Sales, Operating profit are forecasted and its trend is also analysed.

Thirdly, Spinning performance and Healthiness of the Mills have been computed.

Fourthly, Simple regression, Correlation co-efficient is computed to find the relationship between Production, Sales, and Material, Wastage, Fixed Assets, Profit and capital employed. Multiple regression is also used to find the impact of raw materials consumption and wastages on production.

1.10. METHODOLOGY AND SAMPLING DESIGN

The unit selected for this study is the SAMBANDAM SPINNING MILLS LTD., SALEM. Which is within the city limits of Salem.

The basic data required for computations have been collected from the primary source. The secondary data were adequately drawn from the published cost Audit Reports and from literatures.

The sources of secondary data are noted at appropriate pages. The bibliography at the end of the thesis presents a comprehensive list of books
and periodicals from which the secondary data were collected for the purpose of this study.

1.11. PERIOD OF STUDY

This study is conducted for a shorter period of 6 years from 1997-98 to 2002-2003. The period can also be extended depending on the availability of data related to the company.

1.12. TECHNIQUES OF ANALYSIS

The data collected are arranged in a form convenient for analysis. To make the study more scientific statistical tools like regression, correlation co-efficient and Time series analysis are used.

1.13. PRESENTATION AND INTERPRETATION OF DATA

The collected data have been classified and tabulated in such a way to make it useful for analysis and interpretation. Wherever necessary charts and graphs have also been prepared to present the information in a more effective way. The effective presentation of the data makes easy for more effective interpretation.

1.14. LIMITATION OF STUDY

1) The production of yarn depends on the consumption of raw material and also the process wastes. Multiple regression has been used to test the variables, which are influencing the production. However, the production also depends other factors such as quality of raw materials and its yield etc.
2) The period of study has been limited to 6 years. If more number of years has been used, the analysis of performances may have some slight changes.

1.15. SCOPE OF THE STUDY

In order to find out the performance of the Mill the study was conducted with special reference to SAMBANDAM SPINNING MILLS LTD, SALEM. The results and findings of the study can be applied directly to any other mills with some additional amendments and modifications.

1.16. ARRANGEMENT OF CHAPTERS

The study is divided into five chapters. The first chapter is introductory and starts with a brief review of Textile Industry and Performance of Textile Mills in India. It also mentions the significance of the study, the objectives of the study, the scope of the study, methodology adopted for it and the principal Hypothesis tested, the limitations of the study and a short review of the literature on the subject of the study is also covered.

The second chapter deals with the History of the Sambandam Spinning Mills Ltd, Salem.

The third chapter presents the performance Evaluation of Sambandam Spinning Mills Ltd., Salem.

The chapter four has been devoted for an analysis of the working and progress of Sambandam Spinning Mills Ltd., Salem.
The fifth and concluding chapter contains a very brief summary of the previous four chapters. Finally, the findings and suggestions are listed in the concluding part of the last chapter.

1.17. SUMMARY

In view of the increasing competition between the mills in the cotton textile Industry. It has to increase the productivity by employing modernization and rehabilitation suitably. It has to increase its production, as it should satisfy the wants of the increasing population. The above discussion in this chapter shows the development of more and more cotton textile mills, the take-over of sick mills by NTC, Revival of Sick units and Government policies and the need for increasing their strength by providing suitable diagnosis. This chapter also deals with the objectives of the study, hypotheses, Statement of the Problem, Limitation of the Study and Scope of the study, Review of literature and finally it deals with the arrangement of chapters.